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PENSIONS & October 30, 1989

Investment Age

THE NEWSPAPER OF CORPORATE AND INSTITUTIONAL INVESTING $6 AN ISSUE · $110 A YEAR

Miners fighting for health plans

Management backs asset transfer

By Joel Chernoff

WASHINGTON — Coal-industry management and labor want to transfer millions of dollars in surplus assets from a United Mine Workers of America pension fund to bail out the union's cash-starved health plans for retired miners.

What's more, the labor-management coalition seeks to force employers to continue contributing to the health plans as long as a collective bargaining agreement remains in effect — an unusual requirement for a health plan.

Both the UMWA and the industry fear that if employers are able to quit the plans scot-free — as Pittston Co. is attempting to do — more companies will leave the plans, leaving an ever-shrinking pool to pay for millions of dollars in medical benefits covering some 132,000 retired miners.

If successful, Pittston "would have fundamentally dumped its pension and medical liabilities on the rest of the coal industry," said Joe Corcoran, a union spokesman. That action "could force other companies to take the same tack," he added.

"The 'last man's club' always is a concern," echoed Morris Feibusch, vice president of public affairs for the Bituminous Coal Operators' Association, Washington.

The crisis facing the health trusts is the latest confronting America's ability to pay for huge retiree health care liabilities, although this one includes some unique features going back to when John L. Lewis

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LET'S STAND UP AND FIGHT FOR THE UMWA
WE STAND DIVIDED WE FALL IF IT'S LEFT UP TO PITTSTON WE LOSE ALL
WHY NOT GO FOR THE BEST UMWA
STOP PITTSTON FROM SINC

Wide World Photos

Pittston Co.'s withdrawal from the coal industry bargaining group sparked a bitter strike and might start a chain reaction that conceivably could lead to bankrupt health plans for retired miners.

ROUNDTABLE

Evolving America

Executives scrutinize restructuring

By Marcia Parker

NEW YORK — The heavy dose of restructuring U.S. companies have swallowed — voluntarily and involuntarily — has cured some of corporate America's ills and created other maladies, a panel of senior corporate executives and a leading economist said.

But the jury is still out on whether wealth was created.

"It's all shuffling around on a big Monopoly board, and the question is, has wealth really been created?" said Charles McCurdy, an executive vice president of K-III Holdings Inc. K-III Holdings is a co-venture

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Partnership generates interest

Alternative sources of electricity spark 5 pension investors

By Fred Williams

BOSTON — Five pension funds have invested in a unique limited partnership designed to generate electric energy from alternative fuels for sale to electric utility companies.

The ENERGY Investors Fund closed with $159.5 million in commitments from 17 institutional investors. The fund will invest in independent, non-utility, electric generating facilities using such exotic fuels as wood chips, solid waste, wind, hydropower, low sulphur coal and various types of cogeneration.

Five pension funds — GTE Service Corp., Stamford, Conn.; the Police & Fire Retirement System of the City of Detroit; John Hancock Mutual Life Insurance Co., Boston; the American Electric Power Co., Columbus, Ohio; and the New Hampshire Retirement System, Concord — joined with seven financial services firms and five utility-related companies as limited partners in the fund. The pension investors committed a total of about $45 million.

The fund is sponsored by subsidiaries of John Hancock; Energy National Inc., a wholly owned subsidiary of PacifiCorp; KENETCH Corp., San Francisco; and HYDRA-CO Enterprises Inc., a wholly owned subsidiary of Niagara Mohawk Power Corp., Syracuse, N.Y.

GTE committed $15 million to the fund and the Detroit police and fire fund, $9.5 million. Joseph H. Shepard Jr., manager-system corporate benefit funds at American Electric Power Service, said the company's pension fund committed "less than $15 million."

"We see ENERGY Investors Fund as an opportunity for investors to get in on the ground floor of a rapidly emerging industry," said Jim Heath, president of ENERGY Investors Management, the limited partnership's management company. "The demand for electricity is expected to grow throughout the 1990s. We expect that utility companies will continue to purchase an increasing amount of power annually from independent power providers in order to meet the growing demand. The fund puts investors in a position to take advantage of that trend."

John Hancock officials an-

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LATE NEWS

Utah state pension chief resigns

SALT LAKE CITY — The executive director of the $3.2 Utah State Retirement System resigned and two assistants were replaced a week after an audit revealed mismanagement, nepotism, excessive salaries and underperformance of the fund's investments (*see audit story, page 20*).

Bert Hunsaker offered his resignation Oct. 23, just hours before the start of a a special retirement board meeting called by Gov. Norm Bangerter. The board also reassigned Deputy Director Vee J Sharp and hired a replacement for Personnel Director Jean Thomas, who has been on paid leave.

Dee Williams, who was in charge of publicizing the fund's benefit programs, has been named acting executive director.

Board picks 1990 proxy issues

SACRAMENTO, Calif. — The 1990 shareholder resolutions to be sponsored by the $25 billion California State Teachers' Retirement System will include proposals to set up shareholder advisory committees modeled after one that was proposed but never created at Texaco Inc. by the California Public Employees' Retirement System.

Other resolutions approved by the pension fund's board call for subjecting golden parachutes to a shareholder vote, setting sunset provisions on poison pills and asking companies to adopt confidential proxy voting.

Fund officials declined to identify the target companies because they haven't been contacted yet.

Fund seeks realty firm stake

CHICAGO — The $55 billion California Public Employees' Retirement System and Santa Fe Pacific Corp. have entered into final negotiations for the pension fund to purchase a 20% interest in Santa Fe Pacific Realty Corp.

The pension fund submitted a bid of about $400 million for a piece of the company that owns property in 13 states and is a developer in California, Arizona, Illinois and Texas.

A spokesman for Santa Fe said an agreement in principal has been reached, and a definitive agreement is expected "in a couple of weeks." The deal would close in late December.

Jim Smith, mortgage investment officer and head of real estate acquisition for the pension fund, said California Employees usually does not own more than 5% equity interest in any one company. "But this is a hybrid deal involving real estate and stock . . . It's not like buying 20% of General Motors," he said.

Riggs exec takes post at Merus

SAN FRANCISCO — Harold C. "Tim" Warner, onetime second in command of Bank of America's BA Investment Management Co., has been hired as president and chief investment officer of Bank of California's Merus Capital Management.

He replaces Anthony E. Spare, who quit abruptly in August along with three other key executives to form their own firm.

Based on his background, Mr. Warner could provide the initiative to make Merus a separate corporate unit of the bank, as Mr. Spare wanted, instead of a division as it was set up in 1986. Bank of California is owned by Mitsubishi Bank Ltd. of Japan.

"It's been indicated to me that that's a possibility if that's my inclination," Mr. Warner said of starting a separate unit.

Mr. Warner, who begins work Oct. 30, is leaving Riggs National Bank, Washington, which he joined in 1987 as executive vice president and chief trust officer. He set up Riggs Investment Management Corp. last year and was its chairman. His replacement at Riggs has not been named.

Houston Firemen taps Cisneros

HOUSTON — The $580 million Houston Firemen's Relief and Retirement Fund retained Cisneros Asset Management Co., San Antonio, to manage a $30 million discretionary fixed-income account, becoming the first client of the firm founded by former San Antonio Mayor Henry Cisneros.

Kemper gets tough on arbitrage

CHICAGO — Kemper Financial Services is looking for a few good brokerage houses.

"Good" to Kemper are those firms who will not engage in index arbitrage for their proprietary accounts. On Oct. 23, Kemper reportedly ceased relationships with four brokerage firms it said continued to do so: Bear, Stearns & Co. Inc., Kidder, Peabody & Co. Inc., Morgan Stanley & Co. Inc. and Oppenheimer & Co. Inc.

"We're seeking to do business with companies that share our philosophy," Kemper spokesman Martin Gawne said.

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Airlines $2 billion short

PBGC says Eastern's unfunded liability is $1.1 billio

By Adam Lashinsky

WASHINGTON — Major airlines' pension plans are underfunded by about $2 billion, $1.1 billion of which is accounted for by Eastern Air Lines Inc., according to the head of the Pension Benefit Guaranty Corp.

The figure for Eastern represents a $350 million increase since March — when unions went on strike against the airline — in the PBGC's assessm[illegible] of Eastern's unfunded liabilities, suggesting the plans' financial condition is worsening.

The remarks were made during testimony last week before a House Ways and Means Subcommittee on Oversight hearing on the effects of leveraged buy-outs on the airline industry. In his testimony, PBGC Executive Director James Lockhart warned leveraged buy-outs and other financial restructurings increase the potential risk to the agency.

While Mr. Lockhart presented one set of figures to the panel, Eastern's sister company, Continental Airlines Inc., reported this month in a Securities and Exchange Commission filing that Eastern's plans are underfunded by $380 million. Both companies are owned by Texas Air Corp.

The difference may be explained largely by varying interest assumptions used by the PBGC and Eastern. But information presented by both parties suggests a worsening situation for Eastern's plans.

Eastern contends it will not terminate its plans, an assertion the PBGC supports.

The PBGC has filed contingent claims in bankruptcy proceedings to cover the estimated $1.1 billion underfunding. David Gustafson, manager of the PBGC's actuarial policy division, said the government agency's revised assessment reflects lower interest rates and "a change in other actuarial sumptions resulting from ot intervening events."

The major "intervening ever industry experts agree, is the creased likelihood Eastern wo ers — particularly its pilots will take early retirement.

Continental's discussion Eastern's pension liabilities in SEC filing is riddled with cave It says the cost of satisfying liabilities, "if it were assumed pothetically that Eastern perm ently ceased operations," wo be $380 million, based on the p chase of annuity contracts a 10% interest rate.

Sources said the $380 mill represents the underfunding the pension plans, not the act cost of the annuities. Eastern o cials did not respond to questio

The Continental filing also s that if the PBGC were to ter nate the plans, Eastern's obli tions "could significantly exc

Continued on page

Indian Trust probe shows millions lost

By Hillary Durgin

Congress is investigating charges of mismanagement and fraud in the Bureau of Indian Affairs' handling of the $1.7 billion Indian Trust Fund that a federal audit shows resulted in $19.4 million in actual losses and $17 million that can't be accounted for.

Another audit — by Arthur Andersen & Co., New York — found unaccounted-for assets totaled about $19 million as of Sept. 30.

Last week, a subcommittee of the House Committee on Government Operations explored the deepening probe of the BIA's management of trust fund assets on behalf of more than 200 Indian tribes and 290,000 individuals.

> "Nobody's in charge overall . . . If there was a federal law against stupidity, there might be some prosecutions."
>
> James R. Richards
> Department of the Interior

In its audit issued Sept. 29, James R. Richards, inspector general for the Department of the Interior, which oversees the BIA, found that during a 15-year period, the BIA's investment division churned accounts, misplaced records and invested assets in fraudulent concerns and savings and loans that since have failed.

One issue the subcommittee was expected to focus on is whether to approve a contract awarded more than a year ago to Security Pacific National Bank, Los Angeles, to serve as investment adviser to the Indian trust funds. Transfer of the assets to the bank from the bureau's division of trust funds management was to begin Oct. 1, but terms of the contract haven't been formally approved by Congress.

Congress will have to decide whether the Bureau of Indian Affairs, which has fiduciary responsibility for the Indian trust funds, can delegate any of its authority to a third-party contractor. In addition, federal law requires the BIA to reconcile its accounts before money can be transferred.

"The threshold issue is whether or not the assets can be moved to Security Pacific at all," said Michael J. Barrett, first vice-president at Security Pacific. "We're trying to develop a program that will benefit the beneficiaries of this program, and we're caught in the crossfire."

Under the contract negotiated with the BIA, Security Pacific would assume responsibility for the investment advisory services, cash management, accounting and custodial services previously handled by the BIA. The bureau would continue to make investment decisions and be responsible for the accuracy of investment and related accounting data furnished to the financial institution.

One of the critical problems was the lack of central oversight. The assistant secretary for Indian affairs has been responsible for managing the trust funds through the Bureau of Indian Affairs. The bureau's division of trust funds management, located in Albuquerque, N.M., is responsible for investing all Indian trust fund assets. Seven people handled those investments.

"Nobody's in charge overall," said Mr. Richards. "You have three different offices who have parts of this, and there's no or little coordination. If there was a federal law against stupidity, there might be some prosecutions."

As part of the audit report, the inspector general has recommended authority for managing the investments be centralized. That is the "most important recommendation," he said.

In addition, the inspector general recommended a policy be developed to handle investment losses and to reimburse accounts. Since 1982, the audit report said, federal and independent reports have said the bureau's finance and accounting systems were not providing adequate accounting and other information to manage the trust investment program.

The bureau's policy has been to

Continued on page 66

Fiduciary obligations contested

By Curtis Vosti

NEW YORK — A federal district court has ruled an insurer that provided an immediate participation guarantee contract to a pension plan was not a fiduciary under the ERISA.

The ruling is being called the most significant decision on an insurance company's fiduciary obligations since the Employee Retirement Income Security Act was passed in 1974.

Judge Robert P. Patterson Jr. ruled ERISA fiduciary obligations do not apply to John Hancock Mutual Life Insurance Co., Boston, in its handling of a trust account for Sperry Corp. retirees because the insurance contract fell under the exceptions to ERISA's fiduciary guidelines.

A spokesman for Hancock declined to comment on the case. Attorneys for the plaintiff — Harris Trust & Savings Bank, Chicago, trustee for the plan — have indicated they will appeal.

The suit alleges breaches of contract, breaches of fiduciary duty, professional malpractice, unjust enrichment and assorted ERISA violations against Hancock.

In the suit, Harris charged Hancock should have returned proceeds of an immediate participation guarantee contract to the trust in 1981 or 1982 so the trust could reinvest them for the benefit of plan participants. Hancock did return $53 million in 1988, but Harris argues that the amount is less than it was due, and that if returned in 1981, the proceeds could have doubled through investments.

"This is a case that ultimately will be decided by the court of appeals," says Richard Kill, of the New

Continued on page

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Firm drops strategy

Bernstein-Macaulay ends tie to Brignoli

By Barry B. Burr

NEW YORK — Bernstein-Macaulay Inc. dropped its licensing agreement with Brignoli Models Inc. to market a quantitative equity strategy, ending its attempt to manage equities.

The move also marked the fall of the Brignoli Models strategy, known as volatility capture, which was once licensed by three money management firms and, at its peak, attracted more than $1.2 billion from some of the largest corporate pension funds. In less than five years from its inception, the model became one of the most successful equity approaches.

Bernstein-Macaulay's withdrawal, however, marks the last firm known to be managing assets under the strategy. The decline of the model appears less attributable to performance, which pension executives described as from good to below average, than to lawsuits involving Richard Brignoli and his business relationships.

Robert G. Moore, chief executive officer of Bernstein-Macaulay, said the firm ended the licensing agreement because of its failure to attract more than one pension fund investor. The quantitative approach was developed by Mr. Brignoli, principal of Brignoli Models.

Bernstein-Macaulay, primarily a fixed-income manager, had $742 million in tax-exempt assets under management from eight clients as of Jan. 1.

Mr. Moore said its sole volatility capture client, a pension fund he wouldn't name, withdrew its portfolio in the last month, precipitating the decision to drop the licensing agreement. He declined to give the reason for the termination, or the amount of assets it had invested in the strategy. He also declined to discuss whether his firm would offer any new equity strategy.

Mr. Moore said Bernstein-Macaulay's marketing effort has been harmed by the lawsuits including one Mr. Brignoli lost that resulted in the U.S. District Court-supervised dissolution of Brignoli, Curley & Roberts Associates, the principal licensee of the Brignoli Models volatility capture strategy. Bernstein-Macaulay couldn't overcome concern by prospective clients about an association with Mr. Brignoli, he added, even though the soundness or propriety of the strategy itself hasn't been an issue in any of the litigation.

Messrs. Brignoli and Morris didn't return phone calls for comment. No information was available on whether Brignoli Models would seek new licensees for the strategy.

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CORRECTIONS & CLARIFICATIONS

• The total tax-exempt real estate assets and tax-exempt equity real estate holdings of **Metric Institutional Realty Advisors** were incorrectly listed a chart ranking real estate firms in the Oct. 2 issue. The correct figures should have been $239 million in total tax-exempt real estate assets and $193 million in tax-exempt equity real estate assets. The correct figures would have placed the firm 62nd in the rankings.

The new figures also change the totals given for all firms in the survey's universe. The 108 firms responding had $113.576 billion in total tax-exempt real estate assets, of which $90.305 billion was in equity real estate.

• **The RREEF Funds** was omitted inadvertently from a table listing management firms with foreign clients in the Oct. 16 directory of real estate managers. RREEF manages $398 million for non-U.S. clients.

• The name of **Marvin Green**, practice leader for qualified plans at TPF&C, was misspelled in a story in the Oct. 16 employee benefits section.

• The 1989 data in the Oct. 16 page 1 chart listing the Top 20 institutional holders of **ADRs** should have carried a March date.

Lending business a hand

Large funds providing boost to in-state loan programs

By Trudy Ring

Few public pension funds participate in loans to business, but those few include some of the nation's largest.

The $40.3 billion New York State & Local Retirement Systems, Albany, committed $100 million to in-state business lending early in 1988. Of this, $25 million has been taken down by the New York Business Development Corp., with the rest to follow by the end of 1993, contingent on fund officials' continued satisfaction with the program.

Last summer, the $6.1 billion New York City Police Department Retirement System followed with a commitment of $50 million to a loan program.

Both programs involve loans guaranteed by the Small Business Administration; a few other public funds have invested in SBA-guaranteed loans through the years.

Officers at many large state and city funds, however, said they never really have considered business lending. "It's not on our allowable list (of investments), so we don't do it," said Tom Taneyhill, deputy administrator of the $1.5 billion Baltimore City Retirement Systems.

Thomas Zdrowdowski, executive secretary of the $1.7 billion City of Detroit General Retirement System, said his board has been approached about business loans from time to time, but the deals weren't investment grade.

Officials of the New York state funds took pains to ensure their program met investment standards, spokeswoman Claudia Hutton said.

"We wanted all sorts of safeguards," she said. "We didn't mind the idea, but we wanted our money protected."

At least half of the money lent for the system by the business development group must be guaranteed by the SBA or other government agency, with the rest collateralized by mortgages or secured by letters of credit. The rate of interest to be paid to the fund is slightly higher than that of comparable U.S. Treasury securities; the business development corporation can charge borrowers a further premium to cover its expenses.

The program was not legislatively mandated; Comptroller Edward V. Regan, sole trustee of the retirement systems, undertook it voluntarily. "It's a way for us to help funnel money out into small business," Ms. Hutton said.

The money can go only to companies that have a majority of employees or fixed assets in New York or that will use the money exclusively for expansion into the state.

The New York City program buys loans on the secondary market, rather than making money directly available to borrowers, said Jon Lukomnik, press secretary to Comptroller Harrison J. Goldin. It's a way to encourage banks to make business loans, Mr. Lukomnik said.

"We are infusing liquidity into the market," he said. "Having that liquidity available makes banks more secure in writing these loans."

The police fund hired Wheat, First, Butcher & Singer Capital Markets, Philadelphia, as a pooling agent to build a portfolio of the SBA-guaranteed portion of loans available in New York City.

Four New York lenders — Chase Manhattan Bank, Chemical Bank, Freedom National Bank and the Business Loan Center — have agreed to make loans connected with the program. The first loans likely will be made soon, Mr. Lukomnik said. The interest rate will be an increment above the prime rate, he said.

The fund undertook the program without a legislative man-

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Photo by John Kennard

The New York City police fund invested $50 million in a program to offer loans for businesses within the state.

Alabama chief innovating despite barriers and critics

By Curtis Vosti

MONTGOMERY, Ala. — Dave Bronner, chief executive officer of the $8 billion Retirement Systems of Alabama, likes to say he's trying to drag Alabama into the 20th century.

But as the 21st century nears, the system stands out — under Mr. Bronner's "kicking a wet dog" analysis — as an innovative public fund that has prospered despite opposition from business and political leaders — entanglements that can make the most activist of public funds quake.

"We try to be innovative in a place that doesn't want to be innovative," he said.

Unlike other public funds that invest in-state solely by buying stocks of companies based there, Mr. Bronner's approach involves direct investments in in-state projects.

David Bronner is a strong believer of investing in Alabama projects.

"My attitude is, the stronger the economy of Alabama, the stronger the retirement system will be," he said.

Among those investments are $100 million toward a $650 million construction of the Alabama Pine Pulp Co., to be paid back at 12% over 22 years; chemical plants in Mobile; an airplane factory in Foley; a pipe mill at the USX Corp. works in Birmingham; a Wal-Mart Distribution Center in Cullman; targeted home financing programs throughout the state; and state office buildings and parking lots in Montgomery.

Mr. Bronner also tried to buy a Montgomery television station for $70 million, but the deal collapsed in August because it wasn't completed within a specified time frame.

The television issue galvanized business opposition against him, opposition that has been seething since the system announced it was going to build a state office building in Montgomery.

Earlier this year, members of the Business Council of Alabama met to express their unhappiness with Mr. Bronner. They pointed to the state constitution, which seems to prohibit a state agency from competing with private enterprise.

One critic is Aaron Aronov, a council member and a Montgomery real estate developer. Mr. Aronov leases office space to state agencies that presumably will go to the retirement system building when it is

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Overseas asset flow continues

Investment tempo still moving strong

By Margaret Price

Public pension funds have placed more money into international investments during the past year, but they still trail their corporate counterparts in terms of total assets invested overseas.

After a slow start in the early 1980s, the perceived diversification and risk-reward benefits of foreign investing have established overseas securities as a separate asset class.

According to data from InterSec Research Corp., Stamford, Conn., public funds had committed $15.5 billion to international and global investments as of June 30, up from about $12 billion at year-end 1988 and about $6 billion at year-end 1987. By the end of 1989, InterSec projects that public funds will commit a total of $18 billion to $20 billion to international/global mandates.

In contrast, corporate pension funds had $52.2 billion committed to international/global investments as of June 30, up from $48.1 billion at year-end 1988 and $44.3 billion at year-end 1987.

"Public funds have been significantly more active in the past year in new funding, and the amount of international assets in their allocation policies is approaching that of the corporate sector," said Duncan Fordyce, senior vice president at InterSec.

Public funds are now adopting "the basic argument for international diversification that corporations accepted years ago," he said.

Leading public pension plans invested overseas
($ millions)

	Total	Equities	Fixed income
California Public Employees	2,800	1,800	1,000
Colorado Public Employees	1,100	1,100	—
Oregon Public Employes	1,100	1,100	—
Los Angeles County	950	950	—
Connecticut Trust Funds	900	700	200
Arizona State	750	750	—
Hawaii Employees	716	593	123
San Francisco City & County	566	256	310
Wisconsin Investment Board	550	350	200
Illinois Municipal	513	408	105

Norman Benedict, deputy executive director of investments at the $9.1 billion Public Employees Retirement Association of Colorado, Denver, said: "On average, in U.S. currency, the S&P 500 Stock Index trailed (the Morgan Stanley Capital International Europe Australia Far East Index) by 400 basis points over the last 14 years. That helps build a good case" for foreign investing.

The Colorado fund, which made its first international investment in January 1988, had invested its intended allocation of about $926 million by September of that year. The total is now about $1.1 billion because of market appreciation.

"We felt this was a cost-effective way of investing," said Mr. Benedict. "Commission costs are lower if you trade in large blocks of stock."

Mr. Benedict estimated the Colorado fund saved between 15 cents and 25 cents a share in commission costs because of the volume of foreign stock purchased last year.

Larger state funds have tended to lead the way abroad. Consultants say the trailblazers were the Oregon Public Employes Retirement System and the Employees' Retirement System of the State of Hawaii. Some of the early international investors were particularly attuned to opportunities in the Pacific Basin. This sensitivity often paid off handsomely, consultants said.

The move into overseas investing was not easy for all investors in the public sector. Some public funds "had to change their asset allocations, others needed to change regulations and still others needed to change laws," recalls Allan Emkin, managing director of Pension Consulting Alliance, Glendale, Calif.

Other considerations included the higher costs of investing overseas because of such factors as costlier trading commissions, management fees and and custodial charges, said Mr. Emkin.

And, similar to their corporate counterparts, public funds had to bone up on international invest-

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Foreign

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ing.

Before pursuing foreign investments in 1986, officials of the City & County of San Francisco Employees Retirement System needed to educate themselves on the process and related issues, said Clare Murphy, the fund's general manager.

The San Francisco system, with almost $3.8 billion in total assets, has about $566 million in international assets, of which about $256 is stocks $310 million is fixed income.

International investing had been recommended in a 1984 asset allocation study. "But it wasn't a step-by-step, smooth, steady stream from (that recommendation) until the money was committed in 1986," said Ms. Murphy. "We needed to understand the risks that were and still are part of foreign markets," she said.

The education process included staff and consultant's reports and attendance at various programs and conferences. "Education (on foreign investing) was in the process of blooming throughout the U.S. in late 1983, and in '84 and '85," said Ms. Murphy.

The approximately $8 billion State of Connecticut Trust Funds, Hartford, commissioned a feasibility study on international equities before it began investing abroad in January 1988, with an initial $50 million allocation.

The feasibility study, completed near the end of 1987, basically reviewed the expected effects on the fund of international investing.

The fund presented the results of the study to the 12-person Investment Advisory Council, which advises the state treasurer on investment matters; the council ultimately approved the foreign investing idea.

"By telling the Investment Advisory Council and members of the Legislature that this is the way we were going, we avoided a lot of problems," said Frank P. McDermott, assistant treasurer for investments.

As of late October, the fund was expected to have invested about $900 million in foreign securities — $700 million in stocks and $200 million in bonds.

"Most public pension plans, and Connecticut's is no exception, have relatively high cash inflows relative to total assets," said Mr. McDermott, partly explaining why many public funds have the money to invest abroad these days. "We are playing catch-up in funding pension benefits because we started this (funding) later than (many) corporate plans."

While legal barriers were not a problem for the San Francisco and Connecticut pension systems, a number of funds — although their ranks are shrinking — still face such obstacles.

The $7.6 billion Arizona State Retirement System, Phoenix, wasn't able to make its first international investment — a $400 million allocation in January 1987 — until the legal list of acceptable investments was repealed in November 1986.

The legal list was replaced by the prudent man rule, but the new guidelines placed a 10% cap on alternative investments, which included international securities and equity real estate.

"We don't want that 10% clause," said Doug Lemon, the fund's investment director. "We're not dying to do equity real estate anyway," he said, but fund officials would like to raise foreign investments to between 15% and 20% of the fund's assets from the current 10% ceiling.

The 10% limitation applies to such investments as American depository receipts and stocks "that have a foreign component in them" as well as to international money managers' allocations.

Last year, a provision eliminating the 10% cap was attached onto a state economic development bill, but lawmakers reinstated the limitation before the development bill passed. "The pension system will again try to get someone to sponsor a bill" next year to remove the limit on foreign investing, Mr. Lemon said.

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whom they are supposedly so different.

Whether the selection criteria is based on private market value, capitalized dividends, relative price-earnings ratios or other factors, there ought to be a clearly stated investment policy that guides the investment manager. This policy should be articulated in a statement that is consistent between the management firm's marketing and analytical departments, and which is easily understood, discussed and repeated by lay trustees. Given several alternative proposals, all with great historical returns, we are most comfortable with the manager who can rationally explain how those returns were achieved.

This problem of muddy methodology is compounded when marketing staff people, rather than portfolio managers, attempt to explain it. In some cases, it was doubtful whether the marketing staff and portfolio management staff communicated at all.

• **Helpful friends.** Helpful friends as a deadly sin? Unfortunately, yes. Money managers should gain a much more healthy skepticism of people who seek to promote their interests.

Like flies to the barn in summer, retail stockbrokers seek to affiliate with pension managers so the manager can claim some sort of local connection. This trend is disconcerting on several counts. First, it apparently presumes the trustees would be influenced by address rather than competence. Second, the relationship between the local broker and the money manager is transparent — there is no net gain to the local economy. No analysts or support staff are going to move here because a local broker made a sale. Third, trustees are uncomfortable with any quid pro quo between manager and broker. The manager's responsibility ought to be to get the best executions in a competitive market. The appearance of a presumed payback to a local broker is at odds with this responsibility.

A better way?

Managers who win a competition usually are satisfied with the fairness and rationality of the process. The other 99% are convinced "there must be a better way." Perhaps the same is true of elections. But Plato's ideal in which the "men of gold" perpetuate their rule is not, for better or worse, characteristic of public pension fund management.

Today's "men of gold" will be replaced by those who not only manage money well, but who also successfully communicate their capabilities to trustees and avoid committing the deadly sins that eliminate them from consideration. ■

Mr. Reeves is chairman of the investment committee for the Wyoming Retirement System, Cheyenne.